SMD: PREVENTING UNFAIR BUSINESS PRACTICES

THE FEDERAL POWER ACT establishes a mandate for the U.S. Federal Energy Regulatory Commission to prevent "undue discrimination," and often that discrimination causes unjust and unreasonable rates which the Commission is charged with preventing. The Commission's Standard Market Design identifies examples of transmission market power that serve as impediments to competition. The SMD is designed to reform and prevent such practices.

Much of this problem is directly attributable to the continued ability of vertically integrated transmission providers to exercise some degree of market power to advantage its own or affiliated generation. The SMD expands upon Order 2000's encouragement that all transmission facilities be operated independently, whether by a Regional Transmission Organization or an independent transmission operator under contract.

The SMD is designed to prevent these and other forms of discrimination observed in wholesale electric markets today:

PREFERENCE FOR NATIVE LOAD GROWTH. Transmission providers have recalled transmission capacity to serve projected growth in their retail customer base. By apportioning Congestion Revenue Rights according to historical use, or through an auction, the Commission expects to eliminate this preference.

DELAYS IN REQUESTS FOR SERVICE. Power providers competing with generation affiliates of transmission providers experience delays obtaining requested transmission service, causing them to lose the sale. The SMD will address this conflict by having an independent entity calculate Available Transfer Capacity and Total Transfer Capacity, and allocating transmission service first to those who hold Congestion Revenue Rights for specific source-to-sink combinations.

SCHEDULING ADVANTAGES. A transmission-owning utility can schedule power flows across its system with more flexibility than a competing power provider seeking point-to-point transmission service. In some cases, the transmission provider's generation affiliate has sold power to the point-to-point competitor's customer after denying the competitor's transmission capacity request. The SMD establishes a single transmission service for all users and allows competitors to use the transmission system as flexibly as the transmission owner.

IMBALANCE RESOLUTION. Transmission owners enjoy greater flexibility and lower costs in resolving energy imbalances on the transmission system. Transmission providers with generation and customers can resolve imbalances through in-kind exchanges with neighboring transmission systems, while transmission customers face higher costs in purchasing balancing services from other providers. The SMD will require all suppliers to use the same procedure for imbalance resolution.

POSTING OF AVAILABLE CAPACITY. Transmission providers can discriminate against competing power providers by giving their generation affiliates proprietary access to calculations of Available Transfer Capacity (ATC) on the transmission system. The Commission has often found inaccurate ATC postings on Open-Access Same-Time Information Systems (OASIS) Internet sites. The SMD will eliminate this advantage by having an independent, unbiased entity calculate and post ATC.

OASIS POSTINGS. Transmission providers can discriminate against competitors by engaging in prohibited off-OASIS communications between transmission and generation affiliates. Inconsistent design and function of OASIS sites from one transmission provider to the next also harms independent generators. The SMD will have OASIS sites operated by the independent transmission provider on a regional, rather than company-specific, basis.

CAPACITY BENEFIT MARGIN MANIPULATION. Transmission providers have discriminated against competitors by reserving more transmission system import capacity than is needed to serve their retail customers , often charging the cost to other wholesale transmission customers rather than to the customers for whom it is reserved. The more capacity reserved to serve native load, the less is available to the competing transmission customers. The SMD will end this preference by requiring Load-Serving Entities to pay for all capacity reservations.

DISCRETIONARY TRANSMISSION LOADING RELIEF. In the face of growing grid congestion, transmission owners can dispatch generation and flows across the grid in a way that curtails transmission service curtailments for competing power providers but favors their own generation and deals. These curtailments, known as Transmission Loading Relief (TLR) procedures, have increased sharply in certain regions, suggesting that transmission providers are relying on TLRs for more than just emergency transmission overloads. By using locational marginal pricing as the root of its congestion management system, the SMD establishes clear signals and procedures for which plants to dispatch and which transactions to flow, and removes the transmission owner's financial incentives to use TLRs. It will also require transmission systems to be operated by an independent transmission provider that is unaffiliated with any generation or other market participant.

ENRON-TYPE TRADING STRATEGIES. Enron and other power traders developed a set of trading strategies to exploit and profit from the flaws in California and other market designs. Many of these flaws arose from the lack of a nodal pricing system such as Location Marginal Pricing, the use of real-time payments for assumed congestion relief, and the incentive for loads to under-schedule their electricity demands. The SMD will make these strategies ineffective in future wholesale markets because it uses Locational Marginal Pricing to identify and manage transmission congestion costs, and imbalance markets to handle load scheduling and acquisition. Appendix E of the SMD Notice of Proposed Rulemaking outlines the Enron strategies and explains how the proposed market design eliminates the opportunity to exploit congestion management.